

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC NIACT IMMEDIATE 7044

C O N F I D E N T I A L SECTION 1 OF 2 STOCKHOLM 01430

NODIS

FOR DEPUTY SECRETARY INGERSOLL

FOR WILLIAM SEIDMAN, ASSISTANT TO PRESIDENT FOR ECONOMIC
AFFAIRS

FOR AMBASSADOR FREDERICK DENT

E.O. 11652: GDS

TAGS: ETRD, GATT, MTN, OECD, SW

SUBJECT: SPECIALTY STEEL CONSULTATIONS WITH SWEDEN

1. SUMMARY. AMBASSADOR YEUTTER MET WITH REPRESENTATIVES OF THE SWEDISH MINISTRY OF COMMERCE, BOARD OF TRADE AND IRONMASTERS ASSOCIATION TO DISCUSS THE PENDING DECISION ON SPECIALTY STEEL. HE EXPLAINED THE RATIONALE FOR THE DECISION AND THE BENEFITS OF AN OMA IN CONSIDERABLE DETAIL. SWEDISH OFFICIALS EXPRESSED DISAPPOINTMENT AND REGRET ABOUT THE DECISION BUT APPEARED TO ACCEPT THE RATIONALE. THERE WAS EXTENSIVE DISCUSSION OF THE NEGOTIATING PROCEDURES THAT MIGHT BE FOLLOWED, THE NATURE OF OMA'S AND THEIR ADVANTAGES AND DISADVANTAGES, THE CONSEQUENCES OF NOT NEGOTIATING ON OMA, THE BROADER IMPLICATIONS OF THE DECISION, U.S. ATTITUDE TOWARD GATT PROCEDURES INVOLVED AND THE POSSIBILITY OF SECTORAL NEGOTIATIONS, AND WHAT MIGHT HAPPEN TO STEEL TRADE IN THE FUTURE FOLLOWING THIS ACTION. THE PROBING, THOROUGH NATURE OF THE DISCUSSION SUGGESTS THAT THE SWEDES WILL GIVE VERY CAREFUL CONSIDERATION TO THE
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INVITATION TO NEGOTIATE ON OMA. END SUMMARY.

2. AMBASSADOR YEUTTER, MR. HEIMLICH, DCM JOHNSON AND ECON COUNSELOR HIRABAYASHI MET WITH REPRESENTATIVES OF THE MINISTRY OF COMMERCE (CURT WIIK AND STIG BRATTSTROM), SWEDISH BOARD OF TRADE (RUTGER CRONEBORG), AND THE SWEDISH IRONMASTERS ASSOCIATION (ERIK HOOK, MANAGING DIRECTOR, AND HANS VON DELWEG). AMBASSADOR YEUTTER BEGAN THE MEETING BY INDICATING OUR RECOGNITION OF THE IMPORTANCE OF SPECIALTY STEEL TRADE TO SWEDEN. HE STRESSED THAT U.S. TRADE POLICY OBJECTIVES ARE DIRECTED PRIMARILY TOWARD TRADE LIBERALIZATION AND NOT PROTECTIONISM. IN THIS INSTANCE, HOWEVER, HE POINTED OUT THE IMPORTANCE OF THE FACT THAT THIS IS A CONGRESSIONAL ELECTION YEAR AND THAT THE CONGRESS MAY OVERRIDE THE DECISION BY THE PRESIDENT. BECAUSE OF THIS FACT HE STATED THAT THE OPTION OF PROVIDING NO RELIEF WAS NOT VIABLE; THAT IN THE EVENT THE PRESIDENT SHOULD CHOOSE THAT OPTION IT WOULD BE CERTAIN THAT THE ITC 5-YEAR QUOTA SYSTEM WOULD BE IMPLEMENTED TO THE DISADVANTAGE OF ALL INVOLVED. HE STRESSED THAT THE PRESIDENT MUST WALK A VERY FINE LINE IN BALANCING THE DOMESTIC OVERRIDE ISSUE AGAINST OUR CONCERNS FOR FOREIGN SUPPLIERS.

3. AMBASSADOR YEUTTER PASSED OUT THE DRAFT PRESS RELEASE INDICATING THAT ORDERLY MARKETING AGREEMENTS WOULD BE SOUGHT. HE EXPLAINED VARIOUS FEATURES OF THE APPROACH, INCLUDING THE TRIGGERING OF REDUCTION OR ELIMINATION IN RELIEF SHOULD DOMESTIC RECOVERY OCCUR, THE NEED FOR THE 3-YEAR TERM AND THE NEED TO COVER MORE THAN HALF OF THE TRADE IN THESE PRODUCTS. AMBASSADOR YEUTTER DETAILED THE POTENTIAL BENEFITS OF AN ORDERLY MARKETING AGREEMENT FOR SWEDEN, INCLUDING THE FLEXIBILITY TO ADJUST THE PRODUCT MIX OF IMPORTS; TO DEAL WITH THE PROBLEM OF RAZOR BLADE STEEL; TO DEAL WITH THE EXCLUSION OF SOME ALLOY TOOL STEEL FROM THE HISTORICAL BASE; TO BE MORE FLEXIBLE IN SECOND AND THIRD YEAR IMPORT LEVELS; AND POSSIBLY TO CONSIDER THE OUTSTANDING DUMPING ACTION ON PLATE. HE ALSO INDICATED THAT A GLOBAL QUOTA MIGHT BE FOLLOWED FOR THOSE COUNTRIES WHO DO NOT SIGN OMA'S. UNDER SUCH A CIRCUM-
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STANCE EACH COUNTRY WOULD HAVE TO EVALUATE ITS COMPETITIVENESS VISA VIS OTHERS COVERED BY THIS RESIDUAL QUOTA.

4. MR. WIIK INDICATED THAT HIS GOVERNMENT COULD NOT REACT AT THIS TIME. HOWEVER, HE THOUGHT THERE WOULD BE A NUMBER OF QUESTIONS THAT COULD BE DISCUSSED THAT WOULD BE HELPFUL IN THEIR DELIBERATIONS. HE INQUIRED

HOW AN ORDERLY MARKETING AGREEMENT NEGOTIATION MIGHT TAKE PLACE AND WHAT RELATIONSHIP IT MIGHT HAVE TO GATT RULES OR TO A SECTORAL NEGOTIATION IN THE MTN. AMBASSADOR YEUTTER RESPONDED THAT THE NEGOTIATIONS WOULD BE ON A BILATERAL BASIS AND WOULD RESULT IN GOVERNMENT TO GOVERNMENT AGREEMENTS. HE STATED THAT WE WILL RESPECT ANY DECISION NOT TO TALK AND ALSO THE RIGHT OF NAY NATION TO CHALLENGE OUR ACTION UNDER ARTICLE 19, ALTHOUGH WE WILL OBVIOUSLY DEFEND SUCH ACTION. WITH RESPECT TO THE SECTORAL NEGOTIATION, HE STATED THAT WE ARE REQUIRED TO EXPLORE SECTOR NEGOTIATING POSSIBILITIES FOR STEEL BOTH BY LEGISLATIVE HISTORY OF THE TRADE ACT AND BY THE PRESIDENT'S DIRECTIONS BUT WE WOULD HOPE SUCH NEGOTIATIONS WOULD HAVE A LIBERALIZING THRUST. HE POINTED OUT VERY STRONG CONCERN OF THE U.S. INDUSTRY ABOUT COMPETING WITH FOREIGN GOVERNMENT OWNED AND SUBSIDIZED INDUSTRIES, AND THAT THIS TYPE OF PROBLEM MIGHT BE DEALT WITH IN THE SECTORAL CONTEXT.

5. MR. WIIK INQUIRED ABOUT THE DETAILS OF AN ORDERLY MARKETING AGREEMENT. AMBASSADOR YEUTTER INDICATED THAT THESE WERE NOT YET AVAILABLE BUT THAT WE WOULD PROPOSE SOMETHING TO BEGIN A NEGOTIATION.

6. MR. WIIK SUGGESTED THAT THE GROUP ANALYZE THE DRAFT PRESS RELEASE PARAGRAPH BY PARAGRAPH AND A NUMBER OF QUESTIONS WERE RAISED DURING THAT PROCESS. MR. BRATTSTROM ARGUED THAT THE INCLUSION OF A DOMESTIC TRIGGER FEATURE MEANT THAT THE PRESIDENT WAS SAYING THAT IMPORTS HAVE NO RELATION TO THE HEALTH TO THE INDUSTRY. AMBASSADOR YEUTTER REPLIED THAT THE TRADE ACT DOES NOT PROVIDE GUIDANCE ON WHEN AND HOW TO REDUCE OR ELIMINATE RELIEF BUT IT DOES PROVIDE, AS IN THIS
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CASE, FOR RECOVERY FROM PRIOR INJURY. WE FEEL IN THIS

INSTANCE THAT THERE WOULD BE NO NEED FOR RESTRICTIONS WHEN THE INDUSTRY IS OPERATING ON A HEALTHY BASIS. MR. BRATTSTROM INQUIRED AS TO WHAT IMPORT VOLUME WOULD BE PROVIDED UNDER ORDERLY MARKETING AGREEMENTS. AMBASSADOR YEUTTER REPLIED THAT THIS COULD BE HIGHER OR LOWER THAN THE ITC LEVEL AND THAT IN THE CASE OF SWEDEN IT MIGHT BE DIFFICULT TO EQUAL THAT LEVEL ALTHOUGH A MUCH BETTER PRODUCT MIX COULD BE PROVIDED.

7. MR. BRATTSTROM PURSUED THE POINT OF WHAT TOTAL WOULD BE PERMITTED FROM ALL SOURCES AS AN IMPORTANT CONSIDERATION IN WHETHER SWEDEN WOULD DECIDE TO TAKE ITS CHANCES UNDER A GLOBAL QUOTA RESIDUAL OR TO

NEGOTIATE ON OMA. AMBASSADOR YEUTTER INDICATED THAT WE COULD NOT BE PRECISE IN RESPONSE TO HIS CONCERN BUT THAT THE OVERALL ITC LEVELS COULD NOT AS A PRACTICAL MATTER BE EXCEEDED.

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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O 161800Z MAR 76

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC NIACT IMMEDIATE 7045

C O N F I D E N T I A L SECTION 2 OF 2 STOCKHOLM 1430

NODIS

FOR DEPUTY SECRETARY INGERSOLL

FOR WILLIAM SEIDMAN, ASSISTANT TO PRESIDENT FOR ECONOMIC AFFAIRS

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8. MR. HOOM ASKED WHETHER A CONSUMPTION SHARE COULD BE USED FOR DETERMINING IMPORT LEVELS. MR. HEIMLICH REPLIED THAT THIS CREATED SUBSTANTIAL PROBLEMS OF MEASUREMENT AND UNCERTAINTY DUE TO THE LAG IN OBTAINING CONSUMPTION DATA AND ITS APPLICATION TO FUTURE PERIODS. MR. HOOK ASKED ABOUT HOW THE PROBLEM OF THE LAG BETWEEN ORDER AND DELIVERY MIGHT BE HANDLED. AMBASSADOR YEUTTER INDICATED THAT WE MUST OF COURSE MONITOR IMPORTS AT THE TIME OF IMPORTATION. FURTHER DISCUSSION CONCLUDED THAT THIS TYPE OF PROBLEM MIGHT BE HANDLED BY PROVIDING AN EXTENSION PERIOD FOR QUOTAS ON AN OMA BUT THAT THE ALTERNATIVE OF BRINGING GOODS UNDER BOND FOR WAREHOUSE STORAGE IS NOT FEASIBLE FOR SPECIALTY STEEL.

9. SEVERAL OTHER POINTS WERE MADE IN THE ENSUING DISCUSSION INCLUDING THE LACK OF FLEXIBILITY WE WOULD

HAVE IN TERMS OF AN OMA; THE FACT THAT THE NATURE OF THE QUOTA SYSTEM IMPOSED IN LIEU OF OMA'S MIGHT WELL BE DIFFERENT FROM THE ITC PROPOSAL; THAT ANTI-TRUST IS NOT AN ISSUE IN THE UNITED STATES BECAUSE OF THE STATUTORY BASE OF THE TRADE ACT; THAT NEGOTIATIONS WITH

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OTHER SMALLER SUPPLIERS SUCH AS AUSTRIA AND SPAIN WERE POSSIBLE BUT UNCERTAIN; THAT IT WOULD BE IMPOSSIBLE TO DISCONTINUE RELIEF PRIOR TO THE ELECTION; THAT U.S. RESTRICTIONS MAY FORCE THE CARTELIZATION OF THE SWEDISH SPECIALTY STEEL INDUSTRY; AND THAT IT WAS UNLIKELY THAT RELIEF WOULD EXPIRE BEFORE THE END OF 1977 AT THE EARLIEST.

10. MR. WIIK INQUIRED AS TO WHAT PROCEDURE WOULD BE FOLLOWED WITHIN THE OECD AND AMBASSADOR YEUTTER SUGGESTED THAT CONSULTATIONS WOULD PROBABLY TAKE PLACE WITHIN THE TRADE COMMITTEE AND WOULD PERFORM ESSENTIALLY ONLY AN INFORMATIVE PURPOSE.

11. THERE WAS BRIEF DISCUSSION OF THE POSSIBILITY OF MULTILATERAL NEGOTIATIONS CONCERNING THIS PROBLEM BUT AMBASSADOR YEUTTER INDICATED THESE WERE NOT FEASIBLE OR NECESSARY IN THE PRESENT INSTANCE. HE ALSO NOTED THAT WE WOULD KEEP THOSE COUNTRIES WHO ARE NEGOTIATING WITH US INFORMED AS TO DEVELOPMENTS IN OTHER QUARTERS.

12. THERE WAS SOME DISCUSSION OF THE PRECEDENT SET BY THIS CASE AND AMBASSADOR YEUTTER INDICATED HIS HOPE THAT THIS WOULD NOT SET A PRECEDENT AND HIS DOUBT THAT THERE WOULD BE SIGNIFICANT NEW ACTIONS IN VIEW OF THE IMPROVING CONDITIONS IN OUR DOMESTIC ECONOMY.

13. MR. WIIK INQUIRED AS TO WHETHER WE ARE USING ORDERLY MARKETING AGREEMENTS AS TEMPORARY MEANS TO GET PERMANENT GATT ARRANGEMENT FOR STEEL THAT WOULD INSURE SUCH PROBLEMS WOULD NOT RECUR IN THE FUTURE. AMBASSADOR YEUTTER REPLIED THAT WHILE HE EXPECTS NEGOTIATIONS ON STEEL IN GENEVA THAT WE WOULD HOPE THEIR FOCUS WOULD BE ON TRADE DISTORTING PROBLEMS AND THAT THE EFFECTS WOULD GENERALLY BE LIBERALIZING. IT WAS POINTED OUT ALSO THAT OUR ACTION IN THE PRESENT CASE DEALS WITH ONLY A SMALL PROPORTION OF THE STEEL INDUSTRY AND THAT OUR OBJECTIVES WITH RESPECT TO STEEL IN THE MTN ARE STILL UNDER DEVELOPMENT.

14. MR. WIIK CLOSED THE MEETING BY EXPRESSING HIS

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GRATITUDE FOR THIS CONSULTATION AND INDICATING THAT NONE OF THE CHOICES PROVIDED WERE BEAUTIFUL BUT THAT APPARENTLY A BEAUTIFUL OUTCOME IS NOT POSSIBLE.

15. IN A SUBSEQUENT MEETING WITH BENGT DENNIS, THE UNDERSECRETARY OF COMMERCE, MR. DENNIS EXPRESSED GREAT DISAPPOINTMENT AND REGRET IN OUR ACTION BUT DID NOT QUESTION THE POLITICAL JUDGMENT UNDERLYING IT. HE WAS WORRIED THAT IF THE PRESIDENT COULD YIELD ON WHAT HE FELT TO BE A VERY WEAK CASE, THIS HAD SIGNIFICANT IMPLICATIONS FOR FUTURE CASES AND FOR MTN NEGOTIATIONS. HE STATED THAT IN HIS JUDGEMENT THE PRINCIPAL OMISSION IN THE PRESIDENT'S ANNOUNCEMENT IS ANY DISCUSSION OF HOW THE DOMESTIC INDUSTRY WILL BE IMPROVED SO THAT IN THREE YEARS IT WILL BE ABLE TO COMPETE, AND IN LIEU OF SUCH PRONOUNCEMENT, WHAT WILL HAPPEN IN THREE YEARS? AMBASSADOR YEUTTER REPLIED THAT THE INDUSTRY'S CONCERN IS IN COMPETING WITH SUBSIDIZED OR GOVERNMENT-OWNED INDUSTRIES AND THAT IT FEELS THAT IT CAN COMPETE WITH ANYONE ON A PURELY ECONOMIC BASIS. HE SUGGESTED THAT IT IS OUR INTENTION THAT RELIEF WOULD BE REMOVED AFTER THREE YEARS AND THAT THIS ACTION WOULD HAVE NO EFFECT ON OUR ACTIONS IN THE MTN WHICH WILL BE CLEARLY TRADE LIBERALIZING. IF THERE ARE ADVERSE EFFECTS THEY WOULD COME FROM OTHER COUNTRIES.

16. MR. DENNIS RECOGNIZED THE NEED FOR ESCAPE CLAUSE PROVISIONS BUT EXPRESSED CONCERN THAT WIDESPREAD USE BY THE U.S. WOULD DISCOURAGE OTHER COUNTRIES FROM LIBERALIZING EFFORTS IN THE MTN. AMBASSADOR YEUTTER

POINTED OUT THAT THIS CASE IS UNIQUE AND THE ONLY OTHER MAJOR CASE UNDER CONSIDERATION (FOOTWEAR) IS MARKEDLY DIFFERENT IN THAT THERE IS NO CONGRESSIONAL OVERRIDE BECAUSE THE ITC DID NOT AGREE ON A REMEDY. DENNIS INQUIRED AS TO WHETHER THE US COULD PROVIDE UNIQUENESS AND YEUTTER REPLIED THAT WE FELT CONFIDENT WE COULD DO SO. YEUTTER NOTED, HOWEVER, THAT IT OBVIOUSLY IS NOT POSSIBLE TO PREJUDGE FUTURE CASES. JOHNSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, DIPLOMATIC DISCUSSIONS, TRADE AGREEMENTS, IMPORT QUOTAS, IMPORT CONTROLS, NEGOTIATIONS, CAT-B
Control Number: n/a
Copy: SINGLE
Draft Date: 16 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STOCKH01430
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: P840090-2030
From: STOCKHOLM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760354/aaaabvtq.tel
Line Count: 320
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 05 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 MAY 2004 by buchant0>; APPROVED <26 AUG 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SPECIALTY STEEL CONSULTATIONS WITH SWEDEN
TAGS: ETRD, SW, XT, US, GATT, MTN, OECD, (YEUTTER), (WIJK, CURT), (CRONEBORG, RUTGER), (BRATTSTROM, STIG), (HOOK, ERIK), (VON DELWEG, HANS)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006